

ORIGINAL



0000139726

MEMORANDUM

TO: Docket Control

FROM: Steven M. Olea
Director
Utilities Division

DATE: September 28, 2012

RE: **SUPPLEMENT TO STAFF REPORT ISSUED ON JULY 19, 2012, REGARDING CIENEGA WATER COMPANY INC.'S – APPLICATIONS FOR A PERMANENT RATE INCREASE AND FINANCING APPROVAL (DOCKET NOS. W-02034A-11-0194 AND W-02034A-11-0195)**

On August 31, 2012, a Procedural Order was issued directing Staff to file a supplement to its Staff Report for Cienega Water Co., Inc.'s applications for a permanent rate increase and financing approval by September 28, 2012. Staff member Crystal Brown provided the responses to questions 2, 5, 6, 8 and 9. Staff member Del Smith provided the responses to questions 1, 3, 4 and 7.

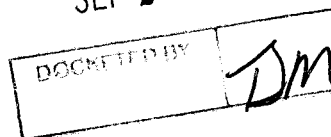
Pursuant to that Procedural Order, Staff hereby submits the attached supplement.

SMO:CSB:red/RRM

Originator: Crystal Brown

Attachment: Original and sixteen copies

Arizona Corporation Commission
DOCKETED
SEP 28 2012



ARIZONA CORPORATION
COMMISSION
DOCKET CONTROL

2012 SEP 28 PM 2:07

RECEIVED

Service List for: CIENEGA WATER COMPANY, INC.
DOCKET NOS. W-02034A-11-0194 AND W-02034A-11-0195

Ms. Debra Kilgore, Vice President
Cienega Water Company, Inc.
PO Box 3518
Parker, Arizona 85344

Mr. Steven M. Olea
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

**ARIZONA CORPORATION COMMISSION
STAFF'S SUPPLEMENT TO
THE STAFF REPORT ISSUED ON JULY 19, 2012
FOR
CIENEGA WATER COMPANY, INC.
DOCKET NOS. W-02034A-11-0194 & W-02034A-11-0195**

SEPTEMBER 28, 2012

1. When will the RV Park be disconnected from the system?

Response: The Cienega Water Company, Inc. ("CWC" or "Company") has estimated that in six to eight weeks the ADEQ Approval of Construction will be issued at which time the RV Park will be disconnected from the Cienega Water Company system.

2. The Staff Report indicates that the well that the RV Park will use is owned by Cienega Development Corp.
- a. Is Cienega Development Corp. affiliated with CWC and/or the RV Park?
 - b. Is the RV Park affiliated in any way with CWC?

Response:

- (a) Yes. Cienega Development Corp. owns CWC and the RV Park.**
- (b) The Owner of CWC also owns the RV Park.**

3. Will Cienega Development Corp or the RV Park be the permit holder of the new transient water system?

Response: Cienega Development Corp will be the permit holder of the new transient water system.

4. Why is the new well that the RV Park plans to utilize not appropriate for use by the residential users?

Response: The well selected to serve the RV Park also exceeds the MCL for fluoride.

5. Regarding the Disconnection of RV Park:
- a. Is it in the public interest for the RV Park to be disconnected from the system and operated as a separate system?
 - b. Does the proposed transaction implicate a sale or transfer of utility assets or affect the Certificate of Convenience and Necessity of CWC?

Response:

- (a) Yes, it is in the public interest for the RV Park to be separated and operated as a separate system due to the high cost of treating the water for the RV Park. If the**

RV Park were not disconnected, then CWC would have to purchase, install, and operate a centralized water treatment plant at a very high cost. Further, because CWC currently has approximately 53 “captive” customers (i.e., as opposed to the RV Park customers who are not “captive” because they can go to any RV park they choose), the high cost of the centralized water system would place a heavy financial burden on primarily the captive customers of CWC. Consequently, it is in the public interest to disconnect the RV Park.

(b) The well that is used to serve the RV Park is owned by the RV Park, it is not an asset of CWC. The proposed transaction, which will allow the RV Park to only provide service to itself, does not affect CWC’s Certificate of Convenience and Necessity.

6. As a “transient water system,” would the RV Park operate under the jurisdiction of the Commission?

Response: The RV Park provision of water service is incidental to its primary business, which is the rental of space to RV owners, whose rental periods vary. The incidental provision of water service would not subject the RV Park to Commission jurisdiction because the RV Park is not acting as a public service corporation.

7. Regarding Solutions To Fluoride Problems:

- a. Were other solutions to the fluoride MCL problem considered?
- b. If, so, why was the POU filter solution considered the best solution?
- c. If not, why not?

Response:

(a) & (b) Yes, other solutions to the fluoride problem were considered. CWC considered installing a centralized water treatment plant however it was very costly. After meeting with ADEQ the Company concluded that a point-of-use system would be a better option for the Company. In order to make the system work, the RV Park would have to be completely removed from the Cienega Water system. The point-of-use treatment units would be used to serve the permanent home sites (which would continue to be served by CWC), while the RV Park would be served by a new separate water system consisting of a new storage tank, well pump connection and booster pumps. Separating the RV Park water system and applying for it to be classified as a Transient, Non-Community water system was the most practical alternative.

(c) N/A

8. Regarding Effective Dates of New Rates and Charges:
- Should the effective date of new rates and charges be coordinated with the disconnection of the RV Park?
 - If not, would the Company potentially over-collect its authorized revenue requirement?

Response:

(a) No.

(b) Staff's revenue requirement including the WIFA loan surcharge, were set without revenues, expenses, or customer counts from the RV Park, therefore, the Company would not over-collect.

9. Staff recommends that the WIFA loan surcharge mechanism include an allowance for the income taxes associated with the additional surcharge revenue, and that surcharge funds be deposited in an interest-bearing account and used solely for payments to WIFA.
- Should the loan surcharge revenues also be available for the payment of income taxes associated with the surcharge revenues?
 - If not, why not?
 - Does WIFA require the maintenance of a loan reserve?
 - If so, does the Staff proposed WIFA surcharge mechanism address a loan reserve?
 - If not, why not?

Response:

(a) Yes.

(b) N/A

(c) Yes.

(d) No.

(e) Including a provision for the reserve fund in the surcharge would cause customers to over pay by an amount equal to one year of principal and interest for the loan.

The loan reserve fund is a fund that the Company pays into for five years. After the five years, the balance will equal one year of principal and interest payments for the loan. The reserve fund is to be used as a "last resort" measure when the Company does not have enough cash available to pay the monthly principal and interest or to pay the final year of loan payments.

In this case, Staff has set base rates so that the Company will have enough cash to pay operating expenses and contingencies. Further, Staff has calculated the WIFA loan surcharge so that the Company will have enough cash to pay the monthly principle and interest on the loan for its entire 20 year term. Moreover, the Company can apply for a permanent rate increase to pay for increases in operating expenses or, if it has an unforeseen emergency that causes a financial hardship, it can obtain emergency rate relief.

The balance of the reserve fund is applied at the end of the loan (e.g., if the loan is 20 years; it is applied at the beginning of the 20th year). Consequently, since the Company will be collecting from customers the last year of principle and interest through the base rate/WIFA loan surcharge¹ and there is no requirement to terminate the base rate/surcharge during the last year of the loan, Staff does not include a provision for the loan reserve fund in the calculation of the surcharge because it would cause customers to pay for the last year of the loan twice, (1) once through the surcharge that was designed to pay the entire cost of the loan over 20 years and (2) once through a debt service provision that is the equivalent of requiring customers to pay for one additional year for the loan (i.e., the customers would pay for 21 years rather than for 20 years) as shown in the table below:

¹ When the Company files for a permanent rate increase, the WIFA loan surcharge will be terminated and the principle and interest on the WIFA loan will be recovered through the monthly customer charge and commodity rates.

Line No.							
1	Amount of Loan			\$50,000			
2	Length of Loan			20 Years			
3	Interest Rate			4.5%			
	Col A	Col B	Col C	Col D	Col E	Col F	Col G
4	Year	Annual Interest	Annual Principle	Total Principle & Interest Col B + Col C	Annual Debt Reserve Payment	Total Principle, Interest, & Debt Service Col D + Col E	Amount Customers Over-Pay Col F – Col D
5	1	\$2,217.71	\$1,578.18	\$3,795.90	\$759.18	\$4,555.08	\$759.18
6	2	\$2,145.21	\$1,650.68	\$3,795.90	\$759.18	\$4,555.08	\$759.18
7	3	\$2,069.38	\$1,726.52	\$3,795.90	\$759.18	\$4,555.08	\$759.18
8	4	\$1,990.06	\$1,805.83	\$3,795.90	\$759.18	\$4,555.08	\$759.18
9	5	\$1,907.11	\$1,888.79	\$3,795.90	\$759.18	\$4,555.08	\$759.18
10	6	\$1,820.33	\$1,975.56	\$3,795.90	\$0	\$3,795.90	\$0
11	7	\$1,729.58	\$2,066.32	\$3,795.90	\$0	\$3,795.90	\$0
12	8	\$1,634.65	\$2,161.25	\$3,795.90	\$0	\$3,795.90	\$0
13	9	\$1,535.36	\$2,260.53	\$3,795.90	\$0	\$3,795.90	\$0
14	10	\$1,431.52	\$2,364.38	\$3,795.90	\$0	\$3,795.90	\$0
15	11	\$1,322.90	\$2,473.00	\$3,795.90	\$0	\$3,795.90	\$0
16	12	\$1,209.29	\$2,586.61	\$3,795.90	\$0	\$3,795.90	\$0
17	13	\$1,090.46	\$2,705.44	\$3,795.90	\$0	\$3,795.90	\$0
18	14	\$966.17	\$2,829.73	\$3,795.90	\$0	\$3,795.90	\$0
19	15	\$836.17	\$2,959.72	\$3,795.90	\$0	\$3,795.90	\$0
20	16	\$700.20	\$3,095.69	\$3,795.90	\$0	\$3,795.90	\$0
21	17	\$557.99	\$3,237.91	\$3,795.90	\$0	\$3,795.90	\$0
22	18	\$409.24	\$3,386.66	\$3,795.90	\$0	\$3,795.90	\$0
23	19	\$253.66	\$3,542.24	\$3,795.90	\$0	\$3,795.90	\$0
24	20	<u>\$90.93</u>	<u>\$3,704.97</u>	<u>\$3,795.90²</u>	<u>\$0</u>	<u>\$3,795.90</u>	<u>\$0</u>
25	Total	\$25,917.93	\$50,000.00	\$75,917.92	\$3,795.90	\$79,713.83	\$3,795.90

CALCULATION OF EXCESS FUNDING PROVIDED BY RATEPAYERS

Rate Payer Funding Including Contributions to Reserve Balance: \$79,713.83 (Col F, Line 25)

Less: Total Loan Service Funding Required Over 20-Year Period: \$75,917.92 (Col D, Line 25)

Excess Funding Provided by Rate Payers: \$ 3,795.50^{2,3} (Col E, Line 24)

Staff has not recommended including a component to collect the WIFA reserve funding from ratepayers for the aforementioned reasons. However, in the event that the Commission decides to authorize the pass through of such reserve funding, Staff recommends the following:

1. That the Company be required to draw down the entire loan within six months
2. That the Company be required to file a new rate case within four years⁴. The WIFA loan surcharge would cease being billed to customers upon issuance of the Commission's order in this new rate change filing.
3. That the Company be directed to record the customer-provided WIFA reserve funding in NARUC Account No. 253, "Other Deferred Credits" as soon as it begins collecting revenue from the surcharge. That the deferred credit be clearly noted as "Customer Provided Funding for WIFA Reserve Fund" on the Company's books and records, and that the net balance in this account will continue to be shown as a regulatory liability until the balance is fully amortized or otherwise credited back to ratepayers.

This deferred credit balance would be recognized as a reduction to rate base in the new rate change filing. The amortization expense related to this deferred credit is to be used to offset depreciation expense⁵.

The ratepayer-contributed WIFA reserve funding balance will only be used to reduce the rate base to the extent that it does not result in a negative amount; however, the amortization of the entire balance will be used as an offset to depreciation expense.

If the annual WIFA reserve payment of \$759.18 were included in the calculation, the WIFA loan surcharge would increase by \$1.46, from \$7.27 to \$8.73. Staff's calculation is shown on the attached Schedule CSB-7a.

² Represents over-funding by ratepayers since this 20th payment is effectively covered by applying the funds of the reserve.

³ Net of income tax consideration.

⁴ Staff contemplates that its recommendation to file a rate case after four years along with an approximate one year to process the rate case will coincide with the five years over which WIFA collects the reserve fund.

⁵ Staff's ratemaking treatment is similar to that of a contribution which is also non-investor provided capital.

ADDITIONAL DOCUMENTS REQUESTED - ADEQ DOCUMENTS

In addition to the responses to the questions set forth above, Staff was ordered to provide copies of any ADEQ documents referenced in its July 19, 2012, Staff Report which were not included in the Application.

Response: See Exhibits 1 through 5 attached.

Exhibit 1: CSR (dated February 17, 2012) Referenced on Page 9 in Footnote 15.

Exhibit 2: Sanitary Survey (inspection date March 15, 2011) Referenced on Page 9 in Footnote 16.

Exhibit 3: ADEQ Documentation (dated June 30, 2011) Referenced on Page 9 in Footnote 17.

Exhibit 4: ADEQ Letter of Approval of POU (dated March 7, 2011) Referenced on Page 17 in Footnote 27.

Exhibit 5: ATC for new Cienega Springs RV Park Water system Referenced on Page 18 in Footnote 28.

**CALCULATION OF SURCHARGE - Including Reserve Fund Payments
WIFA Loan for Point of Use Water Treatment Units**

Line No.					
1	WIFA Loan Amount for Point of Use Water Treatment Units	\$ 50,000		From Sch CSB-7, P. 2	
2					
3	Term	20 Years		From Sch CSB-7, P. 2	
4					
5	Interest Rate*	4.50%		From Sch CSB-7, P. 2	
6					
7	Total Annual Interest, Principal, & Reserve Fund Payments**	\$ 4,555		From Sch CSB-7, P. 2 & Line 51	
8					
9	Annual Income Tax Component of the Surcharge Revenue	\$ 1,205		From Line 57	
10					
11	Total Annual Surcharge Revenue Requirement for the Loan	\$ 5,760		Line 7 + Line 9	
12					
13	Total Equivalent Annual Bills	660		From Line 37	
14					
15	5/8"x 3/4" Meter Surcharge Amount	\$ 5,760 ÷ 660 = \$ 8.73			
16					
17	3/4" Meter Surcharge Amount	\$ 8.73 x 1.5 = \$ 13.09			
18					
19	1" Meter Surcharge Amount	\$ 8.73 x 2.5 = \$ 21.82			
20					
21	1 1/2" Meter Surcharge Amount	\$ 8.73 x 5.0 = \$ 43.64			
22					
23	2" Meter Surcharge Amount	\$ 8.73 x 6.0 = \$ 69.82			
24					
25	3" Meter Surcharge Amount	\$ 8.73 x 16.0 = \$ 139.64			
26					
27	4" Meter Surcharge Amount	\$ 8.73 x 25.0 = \$ 218.19			
28					
29	6" Meter Surcharge Amount	\$ 8.73 x 50.0 = \$ 436.39			
30					
31					
32					
33					
34					

Meter Size	Number of Customers	Customer Multiplier	Equivalent Customers	Equivalent No. of Bills	Monthly Surcharge	Yearly Surcharge	Total Amount
5/8" x 3/4" Meter	55	1	55	660	\$ 8.73	\$ 104.73	\$ 5,760.29
3/4" Meter	-	1.5	-	-	13.09	-	-
1" Meter	-	2.5	-	-	21.82	-	-
1 1/2" Meter	-	5	-	-	43.64	-	-
2" Meter	-	8	-	-	69.82	-	-
3" Meter	-	16	-	-	139.64	-	-
4" Meter	-	25	-	-	218.19	-	-
6" Meter	-	50	-	-	436.39	-	-
TOTAL	55		55	660		\$	5,760.29

* Staff notes that, although the Company proposed a range of interest rates from 2% to 5.25%, as of April 11, 2012, the interest on a WIFA loan for Cienega would be 4.0 percent. Therefore, Staff has used a conservative 4.5 percent interest rate in its calculations.

**Annual Reserve Fund Component: \$3,795.90 / 5 Years = \$ 759.18

Annual Income Tax Component of the Surcharge Revenue calculated as follows:

0.26459 From Sch CSB-7, Page 3
x \$ 4,555 Multiplied by: Annual Principal Payment on Loan (Line 7)
\$1,205.21 Annual Income Tax Component of the Annual Surcharge Revenue

Loan Amount Requested	\$50,000		
Down Payment:	\$0		
Amount Financed:	\$50,000		
Number of years:	20	Compounding Periods:	12
Interest rate (r):	4.50%	APR:	4.59%

LOAN AMORTIZATION SCHEDULE

Period	Loan payment (1)	Beginning- of-month principal (2)	Payments		End-of-month principal [(2) - (4)] (5)	Annual Interest (6)	Annual Principal (7)	Annual Debt Payment (8)
			Interest [r * (2)] (3)	Principal [(1) - (3)] (4)				
1	\$316.32	\$50,000.00	\$187.50	\$128.82	\$49,871.18			
2	316.32	49,871.18	187.02	129.31	49,741.87			
3	316.32	49,741.87	186.53	129.79	49,612.07			
4	316.32	49,612.07	186.05	130.28	49,481.80			
5	316.32	49,481.80	185.56	130.77	49,351.03			
6	316.32	49,351.03	185.07	131.26	49,219.77			
7	316.32	49,219.77	184.57	131.75	49,088.02			
8	316.32	49,088.02	184.08	132.24	48,955.77			
9	316.32	48,955.77	183.58	132.74	48,823.03			
10	316.32	48,823.03	183.09	133.24	48,689.80			
11	316.32	48,689.80	182.59	133.74	48,556.06			
12	316.32	48,556.06	182.09	134.24	48,421.82	2,217.71	1,578.18	3,795.90

Cienega Water Company
Docket Nos. W-02034A-11-0194 & W-02034A-11-0195
Test Year Ended December 31, 2010

Schedule CSB-7
Page 3 of 3

$$\text{GRCF} = \frac{1}{1 - \text{Effective incremental income tax rate}}$$

$$\text{GRCF} = 1.264587 \quad \text{From Schedule 3, P.5, Line 6}$$

$$\text{Incremental Income Tax Factor} = \text{GRCF} - 1$$

$$= 0.26459$$

Arizona Department of Environmental Quality
Drinking Water Monitoring and Protection Unit
Mail Code 5415B-2
1110 West Washington Street
Phoenix, AZ 85007

Drinking Water Compliance Status Report

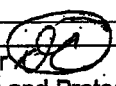
System Name	System Type	Is system consecutive?
CIENEGA WATER COMPANY INC	<input checked="" type="checkbox"/> Community	<input type="checkbox"/> Yes, to PWS #
System ID #	<input type="checkbox"/> Non-transient Non-community	<input checked="" type="checkbox"/> No
15002	<input type="checkbox"/> Transient Non-community	

Overall compliance status	<input type="checkbox"/> No major deficiencies	<input checked="" type="checkbox"/> Major deficiencies
Monitoring and Reporting status	<input type="checkbox"/> No major deficiencies	<input checked="" type="checkbox"/> Major deficiencies
Comments: The PWS has an unresolved fluoride MCL, has been issuing public notice, and sampling on a quarterly basis as required by rule for an MCL.		

Operation and Maintenance status	<input type="checkbox"/> No major deficiencies	<input checked="" type="checkbox"/> Major deficiencies
Date of last Sanitary Survey	3-15-11	Inspector
		Deborah Schadewald, PHX
Major unresolved/ongoing operation and maintenance deficiencies:		
<input type="checkbox"/> unable to maintain 20psi <input type="checkbox"/> cross connection/backflow problems <input type="checkbox"/> treatment deficiencies <input type="checkbox"/> certified operator <input type="checkbox"/> inadequate storage <input type="checkbox"/> surface water treatment rule <input type="checkbox"/> ATC/AOC <input type="checkbox"/> other =		
Comments: Doubled storage and moved tank without an ATC/AOC, and added RV Park to system without an ATC/AOC; however, an AOC was issued on 04/01/09. The system received an ATC on 9/29/10 to install fluoride treatment. Recommendation: operators certification not current.		

Is an ADEQ administrative order in effect?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Comments: CV 93-23901 - Civil Judgement is for the exceedence of the MCL for fluoride. Not complying with consent judgement, referring to Attorney General.		

System Information	
Population Served	265
Service Connections	60
Number of Entry Points to the Distribution System	1
Number of Sources	2
Initial Monitoring Year	1995
Monitoring Assistance Program (MAP) System	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Evaluation completed by	Donna Calderon, Manager 		
	Drinking Water Monitoring and Protection Unit		
Phone	602-771-4641	Date	February 17, 2012
<input type="checkbox"/>	Based upon data submitted by the water system, ADEQ has determined that this system is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4, and PWS is in compliance.		
<input checked="" type="checkbox"/>	Based upon the monitoring and reporting deficiencies noted above, ADEQ cannot determine if this system is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4, and/or PWS is not in compliance.		
<input checked="" type="checkbox"/>	Based upon the operation and maintenance deficiencies noted above, ADEQ cannot determine if this system is currently delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4, and/or PWS is not in compliance.		

This compliance status report does not guarantee the water quality for this system in the future, and does not reflect the status of any other water system owned by this utility company.



Janice K. Brewer
Governor

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

1110 West Washington Street • Phoenix, Arizona 85007
(602) 771-2300 • www.azdeq.gov



Henry R. Darwin
Director

April 27, 2011

Cienega Water Company, Inc.
Attn: Debbie Kilgore
PO Box 3518
Parker, AZ 85344

RE: Cienega Water Company, Parker, Arizona
Public Water System (PWS) AZ0415002
ICE Database Inspection Identification Number 171059

Dear Ms. Kilgore:

On March 15, 2010, an inspection of the Cienega Water Company water system was performed to evaluate the site's compliance with the Arizona Revised Statute (A.R.S.) §49-351 et seq. and Arizona Administrative Code (A.A.C.) R18-4-101 et seq. and A.A.C. R18-5-101 et seq.

Deficiencies were noted during the course of the physical inspection and recommendations were made. ADEQ will take no further action as a result of this inspection; this action does not affect any previous actions or cases.

If you have any questions regarding the enclosed report, please feel free to contact me directly at (602) 771-2225, or by e-mail at DS11@azdeq.gov.

Sincerely,

Deborah Schadewald-Kohler
Environmental Program Specialist
Water Quality Compliance Field Services Unit

Encl: Inspection photos
Sanitary Survey
Checklist

cc: Eleanor Stephan, Operator, 7804 Riverside Drive, Parker, AZ 85344
La Paz County Health Department, Attention: Dave Boatwright, Sanitarian Aide, 1112 Joshua Ave. #206, Parker, AZ 85344
Donna Calderon, Manager, Drinking Water Monitoring and Protection Unit
WQCFSU Reading File
PWS File AZ0415002

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY
WATER QUALITY DIVISION - COMPLIANCE SECTION
FIELD SERVICES UNIT
INSPECTION REPORT-DRINKING WATER

Facility: Cienega Water Company

System No: AZ0415002

Inspected By: Deborah Schadewald-Kohler

Inspection Date: March 15, 2010 11-08

Accompanied By: Debbie Kilgore

County: La Paz

Number of Plants /Wells: 1/2

System Grade: Grade 1 Treatment
Grade 1 Distribution

Certified Operator: Eleanor Stephan

Operator Grade: Grade 1 Treatment
Grade 1 Distribution

Population/Service Connections: 265/60

The system is in compliance with the following ADEQ requirements:

		<u>YES</u>	<u>NO</u>	<u>N/A</u>	<u>UNKNOWN</u>
1.	A certified operator is employed by the owner per ADEQ regulations.		X		
2.	The system meets ADEQ monitoring and reporting requirements.		X		
3.	This system meets ADEQ requirements for operation and maintenance of the physical facilities.	X			

Inspection Purpose and Scope:

This was an announced routine inspection to determine the facilities compliance status under Arizona Administrative Code (A.C.C.) R18-4-101 et seq and R18-5-101 et seq.

Facility Description:

This is a community water system serving a RV Park in Parker, Arizona. The system consists of two active wells, one chlorinator, four 5000 gallon storage tanks with automatic leveler and distribution system. This system is presently working with ADEQ toward remedying a fluoride exceedance.

According to the Arizona Department of Water Resources (ADWR) database wells 2 and 3 were installed June 7, 1982 and are registered as #55-617676 and #55-617677 to Cienega Water Co.

Physical Inspection

The inspection of the system found minor deficiencies in the operation or maintenance of the components.

Well 2 was labeled and locked in a small fenced compound to prevent tampering. There were cracks in the slab that needed to be caulked with silicon caulk. The casing, vent, and sample tap were in good condition. The cover had openings near the wires which needed to be sealed with silicone caulk.

Well 3 was labeled and locked in a small fenced compound to prevent tampering. The cover on this well also needed to be caulked to prevent contamination. The slab, casing vent and sample tap were in good condition.

The storage tanks were located on the hill to the north. The four tanks and the solar system were secured in a locked fenced compound to prevent tampering. The tanks were connected with a leveling system and stable on concrete slabs. There was no screen on the over flow for the tanks and it was recommended that a number 16 mesh be used. The system is run on solar power with a generator for back up.

Monitoring and Reporting

This system participates in the Monitoring Assistance Program (MAP). Therefore, the system is only required to obtain distribution system samples, and any increased monitoring parameters identified through MAP sampling. MAP samples for regulated volatile organic chemicals (VOCs), regulated synthetic organic chemicals (SOCs), and regulated inorganic chemicals (IOCs). Because of the efficiency of the program and the cost-effectiveness of the economies of scale involved, the program was expanded in recent years to include asbestos, radionuclides, nitrite, nitrate, and nickel.

The following is a summary of the status of the sampling the Cienega water Company water system is responsible for:

Total Coliform

The system is required to obtain one sample for total coliform monthly. No deficiencies were noted.

Lead and Copper

The system is required to obtain five samples for lead and copper on a triennial basis, during the period of June through September. The last samples were obtained in 2008 with the next sampling scheduled this year 2013. No deficiencies were noted.

Disinfection Byproducts (DBPs)

The system is required to monitor for DBPs annually. The samples are taken during the period of June through September. No deficiencies were noted.

Maximum Residual Disinfection Levels

How much for test
The system is required to monitor for residual disinfection levels on a monthly basis. No deficiencies were noted.

Consumer Confidence Report

How much to prepare report
The facility is required to file a Consumer Confidence Report by July 1, annually. No deficiencies were noted. *(SHOULD INCLUDE IN OPERATION FEES)*

Nitrate/Nitrite

The system is responsible for submitting one Nitrate sample annually and one Nitrite sample every nine years commencing in 2004 with the next sample due in 2013. No deficiencies were noted.

Compliance Summary

1. **Monitoring and Reporting Requirements.** The facility is not in compliance with monitoring and reporting requirements as noted.
2. **Operator Certification Requirements.** The facility is classified as a Grade I treatment and distribution system, and the facility's operator, Eleanor Stephens, holds a Grade 1 treatment and grade I distribution system certification which expired on March 31, 2011.
3. **Operation & Maintenance (O&M) Requirements.** The facility was not in compliance with the operation and maintenance requirements of the system.

Recommendations

1. ✓ Ensure that the operator has updated certification. *SEE ATTACHED*
2. Install a number 16 mesh screen at the overflow for the storage tanks to prevent contamination by insects or pests.
3. Ensure the slab at well 2 is sealed with silicon caulk to prevent contaminants from entering the soil near the well casing
4. It is recommended that if a hose is to be attached to the sample tap, that a vacuum breaker be installed.

ASK CO. ABOUT 2-4

EXHIBIT 3

Del Smith

From: Vivian J. Burns [Burns.Vivian@azdeq.gov]
Sent: Thursday, June 30, 2011 3:39 PM
To: Del Smith
Subject: Cienega Water - Inspection Report - Recomendations
Attachments: Cienega water overflow.jpg; Cienega Water Well2.jpg

Del,

Per our meeting on June 29, 2011 concerning Cienega Water, you requested Cienega Water submit a statement and pictures concerning Recommendation found on the March 12, 2011 ADEQ Inspection Report (issued April 27, 2011). 15-05

The Recommendations were:

Recommendations

1. Ensure that the operator has updated certification.
2. Install a number 16 mesh screen at the overflow for the storage tanks to prevent contamination by insects or pests.
3. Ensure the slab at well 2 is sealed with silicon caulk to prevent contaminants from entering the soil near the well casing
4. It is recommended that if a hose is to be attached to the sample tap, that a vacuum breaker be installed.

Debra Kilgore sent a statement to me that read:

All the above recommendations have been completed.

1. Certification has been reinstated
2. Mesh screen was installed on overflow pipe
3. Cracks were sealed with silicon caulk around well.
4. Hose was removed and vacuum breaker was installed.

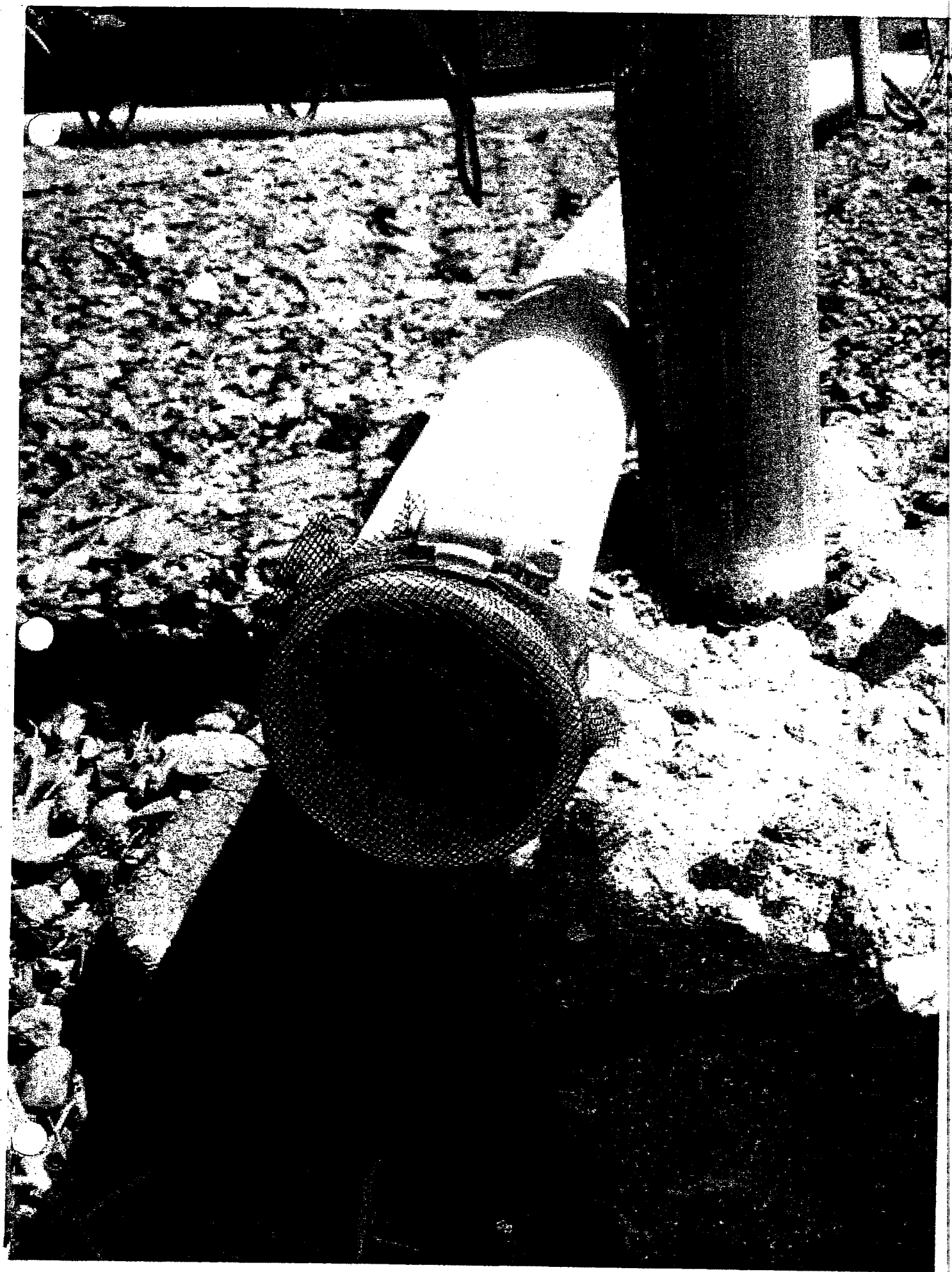
Debra R. Kilgore

Debra also attached a picture of the screened overflow pipe and a picture showing the slab at well #2 has been sealed (see attachments).

Let me know if you are comfortable with accepting Debra's statement and pictures.

Regards, Vivian Burns, ADEQ Water Quality Enforcement Unit Case Manager

6/30/2011





Physical Inspection

The inspection of the system found minor deficiencies in the operation or maintenance of the components.

Well 2 was labeled and locked in a small fenced compound to prevent tampering. There were cracks in the slab that needed to be caulked with silicone caulk. The casing, vent, and sample tap were in good condition. The cover had openings near the wires which needed to be sealed with silicone caulk.

Well 3 was labeled and locked in a small fenced compound to prevent tampering. The cover on this well also needed to be caulked to prevent contamination. The slab, casing vent and sample tap were in good condition.

The storage tanks were located on the hill to the north. The four tanks and the solar system were secured in a locked fenced compound to prevent tampering. The tanks were connected with a leveling system and stable on concrete slabs. There was no screen on the over flow for the tanks and it was recommended that a number 16 mesh be used. The system is run on solar power with a generator for back up.

Monitoring and Reporting

This system participates in the Monitoring Assistance Program (MAP). Therefore, the system is only required to obtain distribution system samples, and any increased monitoring parameters identified through MAP sampling. MAP samples for regulated volatile organic chemicals (VOCs), regulated synthetic organic chemicals (SOCs), and regulated inorganic chemicals (IOCs). Because of the efficiency of the program and the cost-effectiveness of the economies of scale involved, the program was expanded in recent years to include asbestos, radionuclides, nitrite, nitrate, and nickel.

The following is a summary of the status of the sampling the Cienega water Company water system is responsible for:

Total Coliform

The system is required to obtain one sample for total coliform monthly. No deficiencies were noted.

Lead and Copper

The system is required to obtain five samples for lead and copper on a triennial basis, during the period of June through September. The last samples were obtained in 2008 with the next sampling scheduled this year 2013. No deficiencies were noted.

Disinfection Byproducts (DBPs)

The system is required to monitor for DBPs annually. The samples are taken during the period of June through September. No deficiencies were noted.

Maximum Residual Disinfection Levels

The system is required to monitor for residual disinfection levels on a monthly basis. No deficiencies were noted.

Consumer Confidence Report

The facility is required to file a Consumer Confidence Report by July 1, annually. No deficiencies were noted.

Nitrate/Nitrite

The system is responsible for submitting one Nitrate sample annually and one Nitrite sample every nine years commencing in 2004 with the next sample due in 2013. No deficiencies were noted.

Compliance Summary

1. **Monitoring and Reporting Requirements.** The facility is not in compliance with monitoring and reporting requirements as noted.
2. **Operator Certification Requirements.** The facility is classified as a Grade I treatment and distribution system, and the facility's operator, Eleanor Stephens, holds a Grade 1 treatment and grade I distribution system certification which expired on March 31, 2011.
3. **Operation & Maintenance (O&M) Requirements.** The facility was not in compliance with the operation and maintenance requirements of the system.

Recommendations

1. Ensure that the operator has updated certification.
2. Install a number 16 mesh screen at the overflow for the storage tanks to prevent contamination by insects or pests.
3. Ensure the slab at well 2 is sealed with silicon caulk to prevent contaminants from entering the soil near the well casing
4. It is recommended that if a hose is to be attached to the sample tap, that a vacuum breaker be installed.

All the above recommendations have been completed.

1. Certification has been reinstated
2. Mesh screen was installed on overflow pipe
3. Cracks were sealed with silicon caulk around well.
4. Hose was removed and vacuum breaker was installed.

Debra R. Kilgore

EXHIBIT 4

Del Smith

From: Vivian J. Burns [Burns.Vivian@azdeq.gov]
Sent: Thursday, October 27, 2011 11:42 AM
To: Del Smith
Subject: Cienega Water Co - Update
Attachments: Cienega WS, Re-App, 10-11.doc; Cienega WS, Re-App, 10-11.pdf

Del,

Attached is a copy of the ADEQ approval for the installation of Point of Use units at Cienega, which expired June 7, 2011, due to Cienega not installing the units.

Also attached is a letter to Cienega from Frank Smaila dated October 4, 2011, stating the POU certification was cancelled due to the failure to install by the due date.

ADEQ is waiting on Cienega to re-apply for an Approval to Install for the point-of-use units. Once the new application has been received, ADEQ will decide how to deal with the empty lot/standpipe situation.

Let me know if you have questions.

Regards,

Vivian Burns

Vivian Burns, Water Quality Enforcement Unit Case Manager
Arizona Department of Environmental Quality
1110 W. Washington St, Mail Code 5415B-1
Phoenix, AZ 85007
(602) 771-4608
burns.vivian@azdeq.gov

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10/27/2011



Janice K. Brewer
Governor

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

1110 West Washington Street • Phoenix, Arizona 85007
(602) 771-2300 • www.azdeq.gov



Benjamin H. Grumbles
Director

March 7, 2011

Eleanor Stephan
Cienega Water Company
P. O. Box 3518
Parker, Arizona 86344

Re: Point of Use Application for Fluoride Reduction
PWS No. 0415-002
ADEQ File No. 20110007

Dear Ms. Stephan:

The Drinking Water Facilities Review Unit of Drinking Water Section in the Water Quality Division has reviewed your Point of Use (POU) Application for 55 units for Cienega Springs subdivision. This letter approves your application. Our approval is based on the application, PE sealed Design Report, sealed drawings showing the proposed locations, NSF certification of the proposed treatment units, and the operation & maintenance schedule that will be used. Each unit will be an NSF-approved RO unit Model No. WQC4R011-50MTLR manufactured by Kwik-Change. We should receive at least 6 laboratory analyzed testing results by June 7, 2011. The testing results should also be kept on file by the water company. All the units should be put in place at the same time and that should be confirmed in writing along with the initial test results when the latter are submitted to ADEQ. The construction, sampling, and initial testing should be completed within 90 days of this letter of approval.

Each year after the initial testing, at least 19 units should be sampled and tested at least once. The samples should be laboratory analyzed and results should be submitted to ADEQ. If any change in this protocol is desired, a written permission from ADEQ should be obtained.

If you have any questions or concerns, you may contact me at (602) 771-4671 or jd1@azdeq.gov.

Sincerely,

Janak K. Desai

Janak K. Desai, P.E.
Drinking Water Facilities Review Unit
Drinking Water Section

cc: Engineer

Northern Regional Office
1801 W. Route 66 • Suite 117 • Flagstaff, AZ
86001
(928) 779-0313

Southern Regional Office
400 West Congress Street • Suite 433 • Tucson, AZ
85701
(520) 628-6733

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Janice K. Brewer
Governor

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

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Henry R. Darwin
Director

October 4, 2011

FILE COPY

Ms. Eleanor Stephan
Cienega Water Company
P.O. Box 3518
Parker, Arizona 86344

Re: Cienega Water Company
Point-of-Use Treatment Program, PWS No. 15-002
ADEQ File No. 20110007

Dear Ms. Stephan:

The Technical Engineering Unit (TEU) of the Arizona Department of Environmental Quality (ADEQ) had approved your Point-of-Use Treatment Program (POU) application on March 7, 2011 per approval letter from Mr. Janak Desai. The approval letter approved the installation of 55 POU Units for Cienega Springs Subdivision. The 55 POU Units approved for installation were Kwik-Change Reverse Osmosis Model No. WQC4R011-50MTLR. These POU Units were to be installed by June 7, 2011 and analysis provided as to the POU Units operation. No analysis has been received to-date. In fact, ADEQ has received knowledge that the POU Units have yet to be installed.

Since Cienega Water Company has not provided the required information within the time allocated, ADEQ respectfully requests that Cienega Water Company re-submit the Point-of-Use Treatment Program Application. ADEQ has changed the approval process and no longer provides approval letters for acceptance into the program.

In order to be fully accepted into the Program, two (2) approval certificates must be successfully acquired. The first certificate is the Approval to Install (ATI) Certificate, which grants the water system permission to install the POU Units in customer homes, businesses, schools, buildings, etc., by a qualified installer. After installation of the proposed POU Units are completed and other necessary information is provided to ADEQ, a second certificate, the Approval of Installation (AOI), will be issued. The AOI verifies that the water system has met criteria set forth in the Federal and State laws and the Arizona Point of Use Compliance Program Guidance Document (Guidance Document) and is suitable for acceptance into the Program.

Southern Regional Office
400 West Congress Street • Suite 433 • Tucson, AZ 85701
(520) 628-6733

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If you have any questions or concerns, you may contact me at (602) 771-4237 or fms@azdeq.gov.

Sincerely,



Frank M. Smaila
ADEQ Water Quality Division
Engineering Review Section
Drinking Water Facilities Review Unit

cc: ADEQ File No: 20110007
Regional Office: Central
Engineer: Tres Rios Consulting Engineers, Inc., c/o Mr. Jeff Bower
230 W. Baseline Road, Suite 101-A, Tempe, AZ 85282
La Paz County Health Department
Ms. Deborah Schadewald-Kohler, ADEQ Drinking Water Field Inspector
Ms. Vivian Burns, ADEQ Enforcement Officer



**ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY
CERTIFICATE OF APPROVAL TO CONSTRUCT
WATER FACILITIES**

Page 1 Of 3

ADEQ File No: 20100268	LTF No: 53631
System Name: Cienega Water Co.	System Number: TBD
Project Owner: Cienega Springs Rv Park Water	
Address: P O Box 3518, Parker, AZ 85344	
Project Location: Parker	County: La Paz
Description: CIENEGA SPRINGS RV PARK NEW WATER SYSTEM. ATC PERMIT TO CONSTRUCT 1-8,000 GAL STORAGE TANK, 2-3 HP VFD BOOSTER PUMPS W/100 GAL PRESSURE TANK & 820 LF OF 3-INCH PVC & STEEL WATERLINES AND RELATED FITTINGS. TO SERVE 72 RV LOTS & CENTER.	

Approval to construct the above-described facilities as represented in the approved documents on file with the Arizona Department of Environmental Quality is hereby given subject to provisions 1 through 9 continued on page 2 through 3

1. This project must be constructed in accordance with all applicable laws, including Title 49, Chapter 2, Article 9 of the Arizona Revised Statutes and Title 18, Chapter 5, Article 5 of the Arizona Administrative Code.
2. Upon completion of construction, the engineer shall fill out the Engineer's Certificate of Completion and forward it to the Central Regional Office located in Phoenix. If all requirements have been completed, that unit will issue a Certificate of Approval of Construction. R18-5-507(B), Ariz. Admin. Code. At the project owner's request, the Department may conduct the final inspection required pursuant to R18-5-507(B); such a request must be made in writing in accordance with the time requirements of R18-5-507(C), Ariz. Admin. Code.
3. This certificate will be void if construction has not started within one year after the Certificate of Approval to Construct is issued, there is a halt in construction of more than one year, or construction is not completed within three years of the approval date. Upon receipt of a written request for an extension of time, the Department may grant an extension of time; an extension of time must be in writing. R18-5-505(E), Ariz. Admin. Code.
4. Operation of a newly constructed facility shall not begin until a Certificate of Approval of Construction has been issued by the Department. R18-5-507(A), Ariz. Admin. Code.

Reviewed by: FMS

By: Janak K. Desai 3/23/2011
 Janak K. Desai, P.E. Unit Manager Date
 Engineering Review Section
 Water Quality Division

cc: File No: 20100268
 Regional Office: Central
 Owner: Cienega Springs Rv Park Water
 County Health Department: La Paz
 Engineer: Tres Rios Consulting Engi
 Planning and Zoning/Az Corp. Commission
 Engineering Review Database - Etr021

**APPROVAL TO CONSTRUCT
STORAGE TANK, BOOSTER PUMPS & POTABLE WATERLINE
ADEQ FILE No. 20100268
PAGE 2 OF 3: PROVISIONS CONTINUED**

5. Approval of Construction (AOC) will not be issued until data is obtained and verified for Pressure and Leakage Tests of waterlines and Disinfection Sampling of constructed well, storage and hydropneumatic tanks, booster pumps and potable water lines. **Engineering Bulletin No. 10, Chapter 2.E.20, Disinfection Requirements**; requires that... "Every new, modified or reconditioned groundwater source shall be disinfected after placement of final pump equipment". Information on disinfection procedures can be obtained from "Engineering Bulletin No. 8, "Disinfection of Water Systems".

It is recommended that the Engineer's Certificate of Completion (ECC) Data Required Sheet be completed in full, showing actual pressures and sampling data. Data required with ECC sheet can be found under heading - Safe Drinking Water and subheading - Technical Engineering/Plan Reviews

<http://www.azdeq.gov/function/forms/appswater.html#sdw>.

6. Before construction of a modification, expansion, or alteration of this distribution system begins, a separate Approval to Construct applicable to each addition must be obtained. A.A.C. R18-5-505(B).
7. All pipes, fitting, valves, coatings, etc that comes into contact with water shall conform to ANSI/NSF Standard 61. All pipes and appurtenances shall have NSF-PW seal as evidence of compliance. (A.A.C. R18-4-213.B & .C).
8. This certificate will be void if construction has not started within one year *after* the Certificate of Approval to Construct is issued, there is *a* halt in construction of more than one year, or construction is not completed within three years of the approval date. Upon receipt of a written request for an extension of time, the Department may grant an extension of time; an extension of time must be in writing. (A.A.C. R18-5-505(E)).
9. The Arizona Department of Environmental Quality's review of this application was subject to the requirements of the licensing time frames ("LTF") statute under Arizona Revised Statutes ("A.R.S.") § 41-1072 through § 41-1079 and the LTF rules under Arizona Administrative Code ("A.A.C.") R18-1-501 through R18-1-525. This Notice is being issued within the overall time frame for your application.

ADEQ hereby approves your application for Approve to Construct Drinking Water Facilities under A.R.S. § 49-351. Your copy is enclosed.

**APPROVAL TO CONSTRUCT
STORAGE TANK, BOOSTER PUMPS & POTABLE WATERLINE
ADEQ FILE No. 20100268
PAGE 3 OF 3: PROVISIONS CONTINUED**

This decision is an appealable agency action under A.R.S. § 41-1092. You have a right to request a hearing and file an appeal under A.R.S. § 41-1092.03(B). You must file a written Request for Hearing or Notice of Appeal within **30 days** of your receipt of this Notice. A Request for Hearing or Notice of Appeal is filed when it is received by ADEQ's Hearing Administrator as follows:

Office of Administrative Counsel
Arizona Department of Environmental Quality
1110 W. Washington Street
Phoenix, AZ 85007

The Request for Hearing or Notice of Appeal shall identify the party, the party's address, the agency and the action being appealed and shall contain a concise statement of the reasons for the appeal. Upon proper filing of a Request for Hearing or Notice of Appeal, ADEQ will serve a Notice of Hearing on all parties to the appeal. If you file a timely Request for Hearing or Notice of Appeal you have a right to request an informal settlement conference with ADEQ under A.R.S. § 41-1092.06. This request must be made in writing no later than **20 days** before a scheduled hearing and must be filed with the Hearing Administrator at the above address.

Please contact Frank M. Smaila at (602) 771-4237 or fms@azdeq.gov if you have questions regarding this Notice or the Certificate of Approved to Construct.